STATEMENT OF THE HONORABLE DANNY K. DAVIS
AT THE SUBCOMMITTEE ON FEDERAL WORKFORCE
AND AGENCY ORGANIZATION
HEARING ON

REAL ESTATE INVESTMENT TRUSTS (REITS): CAN THEY IMPROVE THE THRIFT SAVINGS PLAN

April 19, 2005

Chairman Porter, we are here to discuss a legislative proposal, H.R. 1578, the "Real Estate Investment Thrift Savings Act." H.R. 1578 would add a Real Estate Investment Trust (REIT) to the Thrift Savings Plan (TSP). The TSP is a key component of the Federal Employees' Retirement System (FERS). It is a defined benefit retirement plan similar to the 401(k) plans provided by many employers in the private sector. The income that a retired worker receives from the TSP will depend on the balance in his or her account.

For this reason, I am concerned about the process – how, when, and why – any investment funds, including REITs, are added to the TSP. The Act that established the TSP specifically states that the Federal Retirement

Thrift Investment Board (the Board) is to set investment policies and administer the plan "solely in the interest of the participants and beneficiaries." Indeed, when the Board last added new funds to the TSP, as fiduciaries and managers of the TSP, the Board studied various investment options and transmitted a legislative proposal to Congress that authorized the addition of the S and I

Funds to the TSP. Rep. Connie Morella introduced the legislation, and it was enacted on September 30, 1995. This is significant, because at this time, the Board and the Employee Thrift Advisory Council do not support adding REITs to the TSP, and the Board has not submitted a legislative proposal recommending that REITs be included in the TSP.

The process by which funds are added to the TSP is important because it goes to the heart of Congress' intent when it created the TSP. In reviewing the legislative history for the establishment of the TSP, one will find this statement, "A great deal of concern was raised about the possibility of political manipulation of large pools of thrift plan money. This legislation was designed to preclude that possibility." It goes on to say, "The committee considered permitting any qualified institution to offer employee specific investment vehicles. However, the committee rejected that approach for a number of reasons. First, there are literally thousands of qualified institutions who would bombard employees with promotions for their services… [Also], even qualified institutions go bankrupt occasionally and a substantial portion of an employee's retirement benefit would be wiped out. This is in contrast to the diversified fund approach which could survive a few bankruptcies." It is clear that Congress intended to isolate the TSP from political manipulation by creating the Board and emphasizing a diversified, broad-based indexing fund approach for the TSP. Congress envisioned exactly what is happening today, and I do not think we should stray too far from the principles Congress laid out in 1986 when the TSP was created.

Given the political realities, however, I strongly recommend that the Board conduct a comprehensive study of various investment funds, including REITs, and submit a legislative proposal to Congress recommending, what funds, if any, should be added to the TSP.

Thank you.